A Comparative Study on Performance Evaluation of Selected Public and Private Sector Bank in India

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Abstract

Financial institutions contribute significantly to a nation's economic growth. Financial development and stability depend on a healthy banking system. In India, both the public sector and private sector banks contribute significantly to the ongoing effort to modernize the country's financial system. The advent of international private sector banks in India enhanced the competitiveness in Indian Banking Industry. Banks play a significant role in the financial markets and as a vital part of the monetary system overall. The growth of every economy depends on a reliable banking system that can pool people's savings and put them to good use. The purpose of the research is to assess and compare the overall financial performance of selected public and private sector banks in India. The Reserve Bank of India and the Ministry of Finance manage and control India's extensive and diversified financial institutions, which include both public and private banks. Since competition is strong and clients are more demanding, the Indian banking sector's efficiency and profitability have taken central stage. Financial performance of the largest public sector banks in India is the primary topic of this research.

Keywords: *Private sector, Public sector bank, Evaluation, SBI, Financial Position, bank.*

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1. INTRODUCTION

There is a common assumption that the Indian banking system is a particularly important part of the country's overall economic infrastructure. The banking industry plays a significant and vital role in the Indian economy and is sometimes referred to as the "life blood" of the country's economy. The banking industry as a whole supported significant reform during the 1990s. There are two types of financial institutions in the banking industry: scheduled and unscheduled banks. Public banks, private banks, regional banks, and international banks are the other banking sectors. Public sector banks, often known as Nationalized banks, are institutions that are owned and operated by the government. Financial institutions in the private sector are owned by people. There are 91 commercial banks in India, 12 of which are government-owned. The primary purpose of financial institutions is to encourage people to save money and to provide loans and advances to those who need them, whether they individuals or businesses. Both public and private banks use different methods of assessing employee performance. Each employee's relationship with their assessor is likewise managed and facilitated by the performance appraisal system. It's a way to get people to know one other and like each other better in the workplace. A company's method of measuring employee performance may need to be adjusted sometimes to account for changes in both the business and the jobs involved.

2. LITERATURE REVIEW

N. Sathiya et.al (2021) The major purpose of this article is to examine the financial performance of selected public and private sector banks in India. Secondary data covering the years 2014–15 through 2018–19 were utilized for this analysis. To compare the financial performance by utilizing specified metrics including return on asset, total revenue, net profit, net interest income and operational profit. Selected public sector banks were found to have higher overall revenue, net interest income, and operational profit than private sector banks. Alternatively, private sector banks have better net profits and returns on assets than their public sector counterparts. When comparing the bottom lines of chosen public and private banks, there is no discernible difference.

Poonam Sharma et.al (2020) Twenty review articles comparing nonperforming assets (NPAs), financial performance, and staff morale in public and private sector banks are explained in this paper. Banks in both the public and private sectors have been analyzed using statistical methods such as the camel model, t test, chi-square test, and correlation. The nonperforming assets of private banks are less than those of public ones. Since public sector banks' nonperforming loans had a lower CAR, private sector banks were determined to be more profitable overall. The NPA rate is a reflection of the health of both public and private banks. Aside from the financial sector, the economy as a whole is feeling the effects of nonperforming loans. Ten causes of public sector banks' increasing nonperforming loans have been investigated. Questionnaires administered following a merger in the public sector banking industry revealed a negative effect on staff morale. For public sector banks, our research is an effort to stem the tide of escalating nonperforming loans and boost profits.

Pranoti Dave et.al (2019) An important part of managing the dangers inherent in the financial sector is keeping tabs on the "financial performance" of an enterprise. It's the practice of putting a price on the outcomes of a company's decisions and actions. It is a metric for assessing the long-term financial stability of a business, and it may be used to both internal comparisons between businesses and to aggregate comparisons across industries and market segments. To be sure, financial statements don't tell everything about a company's money-making processes, but they do provide some incredibly essential material that emphasizes two major issues. monetary health and profitability.

Sushita Chakraborty et.al (2018) Many significant shifts occurred in the Indian banking sector as a result of the country's economic reforms. Rise in competition, sophisticated information technology, diminution in processing costs, wearing away of product and geographical boundaries, minimization of Government regulations — all forced the public sector banks to compete with the private sector banks specially after second generation reforms. With the goal of comparing and analyzing the productivity and efficiency of select banks with varied ratios, the current comparative study has been conducted for the period between 2008-09 and 2016-17 utilizing the examples of choose 11 Public Sector Banks and 11 Private Sector Banks.

Palamalai Srinivasan et.al (2017) The purpose of this research was to assess the financial health of a sample of Indian commercial banks during the fiscal years of 2012/13 and 2016/17. The research covers 16 commercial banks, 11 from public sector and 5 from private sector, and the financial performance of these banks are assessed using the financial ratios. According to the results, private sector banks consistently had superior financial results than public sector banks over the research period. Besides, the research evaluates the influence of liquidity, solvency and efficiency on the profitability of the chosen Indian commercial banks by applying the panel data estimates, namely. the Fixed Effect and Random Effect models. Based on empirical findings using panel data estimates, we know that the liquidity ratio and solvency ratio, as well as the turnover ratio and solvency ratio, have a positive and substantial influence on the profitability of selected public sector and private sector banks.

3. METHODOLOGY

This report is based on the investigation of private sector banks. In India, 22 financial institutions fall under the category of "private sector banks." Based on market share, earnings, and capitalization, the following four banks were chosen from a pool of twenty-two.

1. HDFC Bank (Housing Development Finance Corporation Limited)- 1994

2. ICICI Bank (Industrial Credit and Investment Corporation of India)- 1994

The information used in the current investigation is secondary. The annual reports of the individual banks and the Reserve Bank of India's website both provide the necessary information for making an accurate assessment of the chosen banks' performance. This analysis takes into account a ten-year span, from the 2010-11 fiscal year through the 2019-20 fiscal year. This study looks at the seven-year time frame from the fiscal years of 2012-2013 through 2018-2019.

Matching Asset and liabilities in terms of rate and maturity to get optimal return is the key to success in banking in a deregulated and competitive market. The current subject was chosen in light of the increasing interest in banking sector reforms in India.

Sources of Data

For this intended research endeavor, secondary data sources were utilized. Secondary data was acquired from annual reports of corporations.

Sample Size

Three public banks were chosen for the investigation.

Period Of Data Coverage

Five years' worth of financial statements from the public banks under scrutiny were analyzed.

4. DATA ANALYSIS

Capital sufficiency for HDFC Bank, ICICI Bank, AXIS Bank, and Kotak Mahindra Bank are shown in Table 1. The capital adequacy ratio and the debt-equity ratio are used to assess the financial health of the banks included in the research. The capital adequacy ratios of the four financial institutions are shown in Figure 1. ICICI Bank's capital adequacy ratio is greater than that of the other three banks, which is an advantage. This Ratio in the case of HDFC and AXIS bank is oscillating through 2019 but rises in 2020. Kotak Mahindra Bank's capital adequacy ratio varies between 2011 and 2020. The four financial institutions have sufficient capital to withstand any operating concerns.

Table 1 Capital Adequacy of Private Banks

Year	HDFC Bank		ICICI Bank		AXIS Bank		Kotak Mahindra Bank	
	C.A. Ratio	D.E. Ratio	C.A. Ratio	D.E. Ratio	C.A. Ratio	D.E. Ratio	C.A. Ratio	D.E. Ratio
2011	16.22	0.49	19.54	2.28	12.65	0.05	19.92	2.54
2012	16.52	0.74	18.52	2.32	13.66	0.18	17.52	2.08
2013	16.8	0.94	18.74	2.45	17	0.06	16.05	2.16
2014	16.07	1.03	17.7	2.34	16.07	0.12	18.83	1.05
2015	16.79	0.9	17.02	2.42	15.09	0.54	17.17	0.86
2016	15.53	0.89	16.64	2.26	15.29	0.06	16.34	1.3
2017	14.55	1.03	17.39	1.72	14.95	0.07	16.77	1.31
2018	14.82	1.46	18.42	1.97	16.57	0.08	18.22	1.16
2019	17.1	1.04	16.89	1.74	15.84	0.06	17.5	1.14
2020	18.52	0.74	16.11	1.66	17.53	0.13	17.89	0.99

(a) C.A Ratio= Capital Adequacy Ratio(b) D.E. Ratio=Debt Equity Ratio

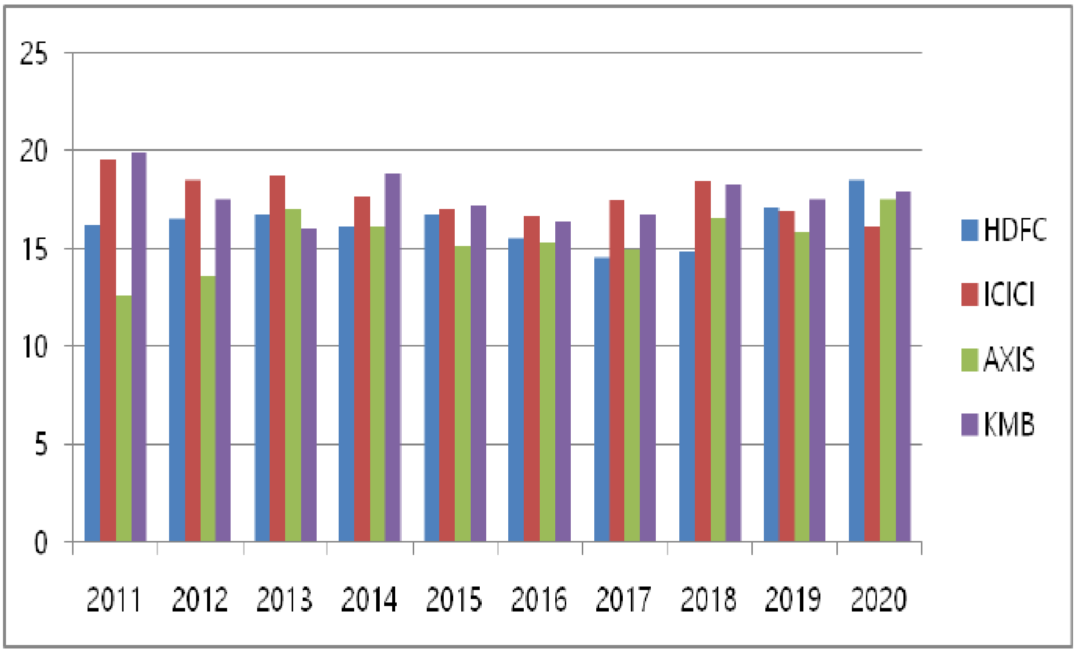

Figure 1 Assets to Total Assets of Private Banks

The earnings potential of these four institutions is laid out clearly in Table 2. Interest income as a percentage of total assets and return on assets are used to evaluate a bank's profitability. When the ratio improves, so does the company's financial standing, and vice versa. Figure 2 displays the Return on Assets Ratio of four banks from 2011 to 2020. This ratio of HDFC bank is always growing which indicates a positive position but, in the case of ICICI Bank, the ratio is increasing until 2015 and then drops from 2016, which is adverse for the ICICI Bank. The AXIS Bank ratio is similarly improving until 2015, but then decreasing at a faster pace after that, which is bad for business. Except for 2016, the ratio has been steadily climbing, indicating the bank's rising profitability.

Table 2 Earning Capacity of Private Banks

Year	HDFC Bank		ICICI Bank		AXIS Bank		Kotak Mahindra Bank	
	ROA	IITA	ROA	IITA	ROA	IITA	ROA	IITA
2011	1.41	7.18	1.26	6.39	1.39	6.24	1.6	8.23
2012	1.52	8.07	1.36	7.08	1.48	7.7	1.65	9.41
2013	1.68	8.75	1.55	7.46	1.52	7.98	1.62	9.6
2014	1.72	8.36	1.64	7.42	1.62	7.99	1.71	10
2015	1.73	8.2	1.72	7.59	1.59	7.68	1.76	9.16
2016	1.73	8.49	1.34	7.31	1.56	7.8	1.08	8.52
2017	1.68	8.02	1.26	7.01	0.61	7.4	1.58	8.24
2018	1.64	7.54	0.77	6.25	0.03	6.62	1.54	7.45
2019	1.69	7.95	0.34	6.57	0.58	6.86	1.55	7.66
2020	1.71	7.5	0.72	6.8	0.17	6.84	1.65	7.47

(a) ROA= Return on Assets Ratio (b) IITA= Interest Income to Total Assets Ratio

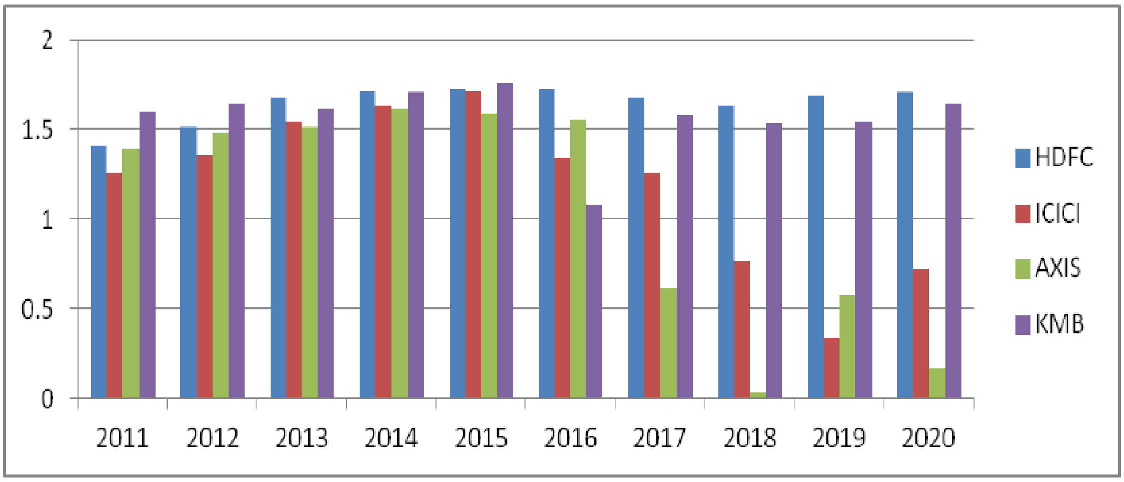

Figure 2 Return on Assets of Private Bank

Table 3 Shows Interest Expended And Income, Loans Turnover, Net Profit Margin, Operating Expense Of Three Public Bank

YEAR	STATE BANK OF INDIA	BANK OF INDIA	BANK OF BARODA
2015-16	4.40	4.46	4.11
2016-17	5.15	5.48	4.79
2017-18	5.40	5.46	4.82
2018-19	5.38	5.26	4.47
2019-20	5.24	5.36	4.33
INTEREST INCOME / TOTAL FUNDS			
YEAR	STATE BANK OF INDIA	BANK OF INDIA	BANK OF BARODA
2015-16	7.35	6.98	6.92
2016-17	8.48	7.75	7.41
2017-18	8.49	7.63	7.17
2018-19	8.37	7.38	6.55
2019-20	8.18	7.26	6.37
LOANS TURNOVER			
YEAR	STATE BANK OF INDIA	BANK OF INDIA	BANK OF BARODA
2015-16	0.12	0.11	0.11
2016-17	0.14	0.12	0.12
2017-18	0.13	0.12	0.12
2018-19	0.13	0.12	0.11
2019-20	0.13	0.11	0.11
NET PROFIT MARGIN			
YEAR	STATE BANK OF INDIA	BANK OF INDIA	BANK OF BARODA
2015-16	9.40	11.63	19.69
2016-17	10.42	9.52	17.21
2017-18	10.66	8.78	13.18
2018-19	7.49	7.83	12.35
2019-20	8.17	4.60	8.70
OPERATING EXPENSE / TOTAL FUNDS			
YEAR	STATE BANK OF INDIA	BANK OF INDIA	BANK OF BARODA
2015-16	2.92	1.59	1.41
2016-17	2.62	1.31	1.25
2017-18	2.59	1.25	1.18
2018-19	2.72	1.28	1.17
2019-20	2.84	1.31	1.17

The data in the table above show that the ratio for all banks is between 4 and 7. There has been no significant improvement or decline at any of the three banks throughout the duration of the five years covered by the study. Bank of Baroda is the best-performing financial institution in India, followed by State Bank of India.

The three banks' interest income to total funds ratios have been relatively stable over the last five years, as shown by the following figures. State Bank of India boasts the highest average ratio value, followed by Bank of India and Bank of Baroda.

As can be seen from the aforementioned LOANS TURNOVER ratio chart, the State Bank of India has the highest ratio value, followed by the Bank of Baroda and the Bank of India. That's why State Bank of India is the most successful in terms of sales and in terms of paying back its debts.

In terms of retaining a proportionate share of its revenues as net profit, Bank of Baroda outperforms both Bank of India and State Bank of India. As can be seen in the table above, State Bank of India has the highest operating expenditure / total funds average ratio value for the past five years of the research period.

As was previously said, analysis requires financial statement data to be dissected and reassembled. For example, only current assets and current liabilities have been considered in order to determine whether or not a bank can satisfy its short-term obligations with its short-term assets and its long-term assets with its long-term liabilities. There has been an effort to disentangle the assets section of the balance sheet into fixed asset an d current asset in order to learn more about the latter. The analysis of liabilities has been done in the same manner, separating them into current liabilities, fixed liabilities, and Proprietor's capital, in order to gather information for current liabilities.

Interpretation:

A preliminary effort has been made to analyze the connection of linked components after breaking down the financial statements into similar component parts and considering the relative size of the comparable component. To determine if a company can cover its short-term debts with cash on hand, for instance, it need more than just an analysis to draw the right conclusions about the bank's development; interpretation of results based on judgment is essential.

Table 4 Total Income Amount in crores

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Mean	Growth Rate
Banks									
S.B.I	135,691	154,903	174973	191848	201979	265100	279643	59333	51.48
J.K.B	6620	7157	7655	7348	7179	7117	8488	2158	22.01
P.N.B	46109	47799	52206	54301	56227	56876	58687	14971	21.43
Canara bank	37230	43480	48300	48897	48942	48195	53385	12945	30.26
Bank of baroda	38827	43402	47365	49060	48958	50306	56065	13556	30.75
Total of Public Sector Banks	264,477	296,741	330499	351454	363285	427594	456268	102964	42.03
ICICI	48421	54606	61267	68062	73660	72385	77913	18048	37.85
HDFC	41918	49055	57466	70973	81602	95462	116598	22645	64.05
AXIS	33734	38046	43843	50359	56233	56747	68116	14550	50.48

YES BANK	9551	11703	13618	16245	20581	25491	34214	6252	72.08
KOTAK MAHINDRA	9203	10167	11748	18996	21176	23800	28547	5393	67.76
Total of Pvt Sector Bank	142827	163577	187942	224635	253252	273885	325388	66888	51.48

From 2012-13 through 2018-19, seven years of data are shown in Table 4 for the total revenue of Public Sector banks and Private sectors Banks. Compared to the growth rate of 56% seen by private sectors Banks, the total revenue of public sectors Banks has increased from Rs 2,64,477 crores in the financial year 2013 to Rs4,56,208 crores in 2018-19, a 42% rise. The figure also shows that the typical public sector bank has a total revenue of $. Despite the fact that they all show different tendencies, the public sector banks' combined total of Rs 102964cr is much more than the private sector banks' total of Rs 66,888cr.

5. CONCLUSION

ICICI Bank and Kotak Mahindra Bank, both based in India, both earned a grade of C for their capital adequacy ratios. Among financial institutions, ICICI Bank has the highest debt-to-equity ratio. While ICICI Bank is aiming to increase its financial leverage, it is simultaneously increasing its financial risk. The proportion of equity to debt at Axis Bank is high. HDFC Bank and Kotak Mahindra Bank both benefit from a debt-equity mix that includes a higher proportion of debt. The four financial institutions are well funded to take on risk. E-Based on private banking profitability, HDFC Bank and Kotak Mahindra Bank are leading the way. However, ICICI and AXIS Banks have seen a decline in return on assets and interest income as a percentage of total assets since 2015. These two financial institutions need to boost their revenue generation. Research on the bank's overall performance in areas including income, interest generated, operating profit, net profit, and return on assets shows that public sector banks underperform their private sector counterparts. Using ratio analysis, we may deduce that public sector banks kept a bigger proportion of their revenue as net income in previous years. " Loan turnover is lower and the outstanding loan amount is larger in public sector banks compared to commercial banks. The State Bank of India has the most potential to raise its core operational costs using its average total resources.

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